



INITIATIVE  
ON  
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THE ASPEN INSTITUTE

Smart solutions  
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The Initiative on Financial Security at the Aspen Institute is a leading policy program focused on bold solutions to help all Americans at every stage of life to save, invest, and own.

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## THE MAIN STREET MOMENT IN THE FINANCIAL CRISIS



Pictured from left to right: Paul Schott Stevens, President & CEO of the Investment Companies Institute, Lewis Mandell, Senior Fellow of the Initiative on Financial Security, Terry Savage, nationally syndicated financial columnist, Marc Morial, President & CEO of the National Urban League, Lisa Mensah, Executive Director of the Initiative on Financial Security, Eugene Ludwig, Chairman & CEO of Promontory Financial Group, and Michael Johnston, Executive Vice President of The Capital Group Companies, Inc.

### BUILDING MAIN STREET'S FINANCIAL SECURITY IN THE OBAMA ERA

Is the financial crisis a moment for Main Street? Can Wall Street use its ingenuity to build financial security for all Americans? What can and should government do to encourage the savings needed to facilitate economic mobility? On April 2, 2009, the Aspen Institute Initiative on Financial Security (Aspen IFS) convened a panel discussion to consider these questions at a time when the financial crisis has dealt a devastating blow to Americans' sense of financial security.

Moderated by Walter Isaacson, President and CEO of the Aspen Institute, the distinguished panelists included Michael J. Johnston, Executive Vice Presi-

dent of the Capital Group; Eugene A. Ludwig, Founder and CEO of Promontory Financial Group and former U.S. Comptroller of the Currency; Marc Morial, President & CEO of the National Urban League and former Mayor of New Orleans; Terry Savage, nationally-syndicated personal finance columnist with The Chicago Sun-Times; Paul Schott Stevens, President and CEO of the Investment Company Institute; and Dr. Lewis Mandell, Senior Fellow at Aspen IFS.

The event also signified the release of Aspen IFS's issue brief, "Wall Street/Main Street: The Challenge of Building

Financial Security in the Obama Era.” For many Americans, the economic crisis has imperiled their jobs, their ability to provide for their families, and their optimism about the future. People who have been saving and investing for years have seen their accumulated wealth nearly disappear. Although financial insecurity brought about by the crisis is a new experience for some, it has been a chronic condition for many Americans. For example, some 20% of Americans are estimated to be “unbanked,” that is, to have no attachment to the financial mainstream and therefore no opportunity to save and invest.



TERRY SAVAGE SPEAKING ON THE FINANCIAL CRISIS AND ITS IMPACTS ON AMERICA'S MAIN STREET.

“We have this whole group of people who thought they had finally found a foothold into the American economy who are now losing their jobs and losing their homes. This economic slowdown has hit America in many profound ways. It's not just the investments that have melted away, it's the very roots of America, home ownership, and faith in the future of America that's been very badly hit.”

-TERRY SAVAGE

Compounding Main Street's financial insecurity is the fact that the US has not been a nation of savers for decades. In addition, over the past twenty years, the distribution of assets in the US has become extremely uneven. A very small percentage of the population holds the majority of the wealth. In fact, research indicates that one-third

of net worth is owned by the wealthiest one percent of Americans and this disparity is only increasing.

According to the Aspen IFS issue brief, a closer look at what individuals across

the income scale actually do with their savings reveals an “Investment Gap.” Most families at the lower end of the income scale hold their money in transactions accounts (checking and savings accounts) or certificates of deposit and savings bonds. These investments offer little to no growth potential, and these accounts can be subject to high fees. In contrast, almost 50% of the most-wealthy group hold stocks and 35% hold mutual fund investments outside of retirement accounts compared to only about 20% and 15%, respectively, of the lowest three income quintiles. In addition, about 90% of the most-wealthy group has a retirement account as compared to about 70% of the third income quintile.

These statistics indicate a wide disparity in the US in terms of both the amount of financial assets and where those assets are held. This is both a problem and an opportunity for financial security in America. These data indicate that low- and moderate-income consumers may find financial investment products difficult to access. This moment of financial crisis, however, provides the financial services industry with an opportunity to use its experience and expertise to create new ways to encourage and get more Americans into the financial mainstream: saving, investing, and growing their assets, no matter how large or small.

**THE PERSPECTIVE OF MAIN STREET:** Terry Savage and Marc Morial started the conversation by providing insights into what they are hearing from Main Street. Terry Savage noted the despair echoing through Main Street, “We have this whole group of people who thought they had finally found a toehold into the American economy who are now losing their jobs and losing their homes. This economic slowdown has hit America in many profound ways. It’s not just the investments that have melted away, it’s the very roots of America, home ownership, and faith in the future of America that’s been very badly hit.” Morial added, “People are mad. They’re upset, they’re angry because I think they realize that this was not an economic tsunami coming from out in the sea. They believe that bad decision-making in both the private and public sectors over the past several years were substantial contributing factors.”

The panel reflected the sentiment that Main Street feels betrayed by Wall Street. In order to restore the financial system, Wall Street is going to have to get Americans to trust the system again. One way to do that is to offer products that are easy to understand and enable even low-income families to build wealth. Michael Johnston added, “I think for us to create something that the broader public, meaning especially moderate- and low-income fami-

“There’s something sort of meat-and-potatoes and right about people saving and really focusing on their futures themselves, in a thoughtful way.”

-EUGENE LUDWIG

lies can use, we have to get the trust back into the system. At least in the mutual fund industry, we have too many products right now for a broad swath of moderate- and low-income families. We have to narrow down the products to just a few and make it a lifecycle product.”

**THE CHALLENGE TO WALL STREET:** The panel discussed what Wall Street can do to serve everyday Americans better, and the consensus was overwhelmingly that this moment of reform must focus on what Main Street needs in order to build and maintain financial security. Eugene Ludwig stated, “There’s something sort of meat-and-potatoes and right about people saving and really focusing on their futures themselves, in a thoughtful way.” In an effort to develop a better, safer, and more inclusive system that would help more Americans save, invest, and own, Aspen IFS believes that a new system should be guided by five principles: 1) savings plans should be targeted to meet needs at every stage of the lifecycle; 2) savings plans should be universal; 3) savings plans should

## PRINCIPLES OF A BETTER SAVINGS SYSTEM

1. SAVINGS PLANS SHOULD BE TARGETED TO MEET NEEDS AT EVERY POINT OF THE LIFECYCLE
2. SAVINGS PLANS SHOULD BE UNIVERSAL
3. SAVINGS PLANS SHOULD BE SIMPLE
4. SAVINGS PLANS SHOULD INCLUDE A GOVERNMENT MATCH
5. SAVINGS PLANS SHOULD BE DESIGNED IN COOPERATION WITH THE PRIVATE SECTOR

be simple; 4) savings plans should include a government match; and 5) savings plans should be designed in cooperation with the private sector.

A common theme discussed by the panel was the need to simplify investment products. The discussion addressed the complexity and diversity of financial products available to the average consumer as well as the need for more financial education. Eugene Ludwig provided a counter argument by cautioning that much more needs to be done to enable more Americans to achieve financial security and financial opportunity. “This negative savings is on top of a decade where the middle class and below did not share in the increase in wealth in this country. And the notion that we’re going to solve it by creating instruments on Wall Street seems to me a lack of recognition of the profound economic changes in the society we need that will come and could further disadvantage low- and moderate-income people if we don’t focus on the whole system carefully.”

“I’m really hopeful that with the products we have, if Wall Street is willing to change and become more educational, particularly with moderate- and lower-income groups, we’ll figure out a way to get poorer and moderate-income people to save and invest more money.”

-MICHAEL JOHNSTON

The panel emphasized the importance of utilizing the brilliant minds on Wall Street to help more Americans to save rather than just focusing on those at the top of the income distribution. Michael Johnston expressed a sense of optimism that Wall Street can address the needs of Americans throughout the income spectrum. “I’m really hopeful that with the products we have, if Wall Street is



WALTER ISAACSON, PRESIDENT & CEO OF THE ASPEN INSTITUTE.

willing to change and become more educational, particularly with moderate- and lower-income groups, we’ll figure out a way to get poorer and moderate-income people to save and invest more money.” There was some concern over Main Street’s ability to do this as an audience member asked whether the panelists believed Americans can be trusted with the responsibility of saving for themselves. Paul Schott Stevens responded with confidence in the American people, “There is a debate on retirement issues about whether Americans can be trusted to figure this out. Actually in our research in the 401(k) system, there’s every indication we get that Americans are making really good decisions.”

**THE CONTRIBUTION OF GOVERNMENT:** Among the panelists, there was a general agreement that the government must help rebuild Main Street’s confidence in saving and investing. A key element is regulatory reform of the financial services industry. Eugene Ludwig noted that the financial crisis has revealed how the regulatory system must be better aligned with the needs of Main Street, “We’ve had a dysfunctional regulatory system for some time. It’s an alphabet soup of individual regulatory bodies that regulate on the basis of the charter and not on the basis of a global comprehensive view of risk.”

Instead, what the regulatory system itself ought to be focusing on is in a sense the sanctity of savings and wealth creation and the responsibilities particularly towards low- and moderate-income people. Marc Morial added, “What has occurred with this market and with this downturn is infected by a sense amongst people that there have been substantial abuses. We see it being played out with more information coming out about the subprime market and predatory lending and the steering of people. You cannot restore confidence in this environment by simply asking people to bet on historical antecedents. There’s got to be a reshaping of the regulatory system.”

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-MARC MORIAL

The panelists also felt strongly that government must do more than re-regulate. It must find new ways to build fi-

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-PAUL SCHOTT STEVENS

ancial security for Americans, particularly younger generations of Americans. To do that requires much more of an emphasis on saving and much less on debt. Paul Schott Stevens noted for years society has been “sending the wrong message: consume, consume, consume ... and we could actually do this differently and have saving-led growth in the United States by developing a capital base rather than by encouraging people to just spend recklessly.”

The use of debt to finance college education was one area in which the panelists called for change. Ludwig noted, “We’re denying our children education, we’re making it so expensive that they can’t actually take the steps that are not only necessary to give themselves financial literacy, but give the county an opportunity to basically compete internationally. And then to saddle them with them with the kind of debt they can’t possibly repay for the rest of



MICHAEL JOHNSTON DISCUSSING THE POTENTIAL OF IFS CHILD ACCOUNTS.

## SAVINGS FOR THE TRANSITION TO ADULTHOOD: ASPEN IFS CHILD ACCOUNTS

- GIVING EVERY CHILD AT BIRTH A \$500 INVESTMENT ACCOUNT AT A FINANCIAL INSTITUTION WITH AN INVESTMENT FUND STRUCTURED FOR AN 18-YEAR INVESTMENT HORIZON, LIMITS ON ACCOUNT FEES, NO WITHDRAWALS UNTIL THE CHILD TURNS 18, AND TAX-FREE GROWTH.
- ALLOWING ADDITIONAL CONTRIBUTIONS OF UP TO \$2,000 PER YEAR, WITH THE GOVERNMENT ENCOURAGING SAVINGS BY PROVIDING, THROUGH THE TAX CODE, A DOLLAR-FOR-DOLLAR MATCH UP TO \$1,000 FOR LOW- AND MODERATE-INCOME FAMILIES.

their life so they can't develop. It is absolutely insane." Alluding to the high cost of obtaining higher education in America, Walter Isaacson added, "If a foreign government imposed this system on us to destroy our country we would have gone to war."

Looking forward, the panelists called for a new savings agenda for America. Savage argued that "the way out of the debt problems we have is not by encouraging people to take on more debt. The way out is economic growth. It's funded by savings and we need to provide incentives for savings." One idea receiving strong support from all panelists was the Aspen IFS proposal for child accounts. The Aspen IFS child accounts proposal would give \$500 to every child at birth to open an investment account at a financial institution, which would have limits on account fees, prohibit withdrawals until the child turned 18, and would grow tax free. When the child turns 18, the account would be a spring board into a more financially secure adulthood and could be used for further

asset building activities such as home ownership, education, and small business.

Johnston stated, "What the federal government can do is the child accounts... if we gave every child in this country \$500, that's going to spur at the grassroots level a demand for more financial education. And it's at the grassroots level that we really need that." In his view, "when you see huge numbers being thrown around to save General

**"What the federal government can do is the child accounts...if we gave every child in this country \$500, that's going to spur at the grassroots level a demand for more financial education. And it's at the grassroots level that we really need that."**

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Motors and Chrysler and financial institutions, coming up with money for kids in this country, to me, seems like a no-brainer." Savage also endorsed the proposal, pointing to its long-run potential for the country as a whole. "To the extent that your child savings accounts could ... grow just at average historical returns, that kind of wealth that you create not only for

the people creates a wealth for the country to pay off the promises we've made. It's a brilliant idea that Aspen's got started and why can't we get it done?"

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## THE MAIN STREET MOMENT

The panel unanimously agreed that this financial crisis is a moment for Main Street. It is a Main Street moment because the pain being felt by moderate- and lower-income Americans is reverberating throughout Wall Street. The panel called for Wall Street to step up as leaders to build a new system of financial security for all Americans by meeting the needs of low- and moderate-income families.

The discussion revealed that the government has the power to lead American families into better savings habits and greater financial security through savings incentives such as tax deductions and matching contributions. The government also has the power to enact regulatory reforms that put the interests of the American people first. Previous financial crises have shown the American people to be resilient. In his powerful last words for the panel, Stevens said, “And one lesson I think it’s very important to draw is a lesson of optimism. We do go through these things and we learn from them and we apply the right remedies, but there’s nothing like hard work and thrift in this country and with all the opportunities we have. And that’s what’s made us. That’s really what has sustained us.”

In closing, the panel concluded that Main Street, Wall Street, and the federal government must seize this opportunity to build a better connection between Main Street and Wall Street. Main Street must actively engage in saving, Wall Street must work to meet the needs of the everyday American, and the government must rebuild a financial system that can be trusted and gives everyone, regardless of their income, the opportunity to save and build wealth. Michael Johnston rounded out the conversation in a way that conveys the interdependence of Main Street and Wall Street by saying that, in this moment of reform, “if Wall Street can live up to the greatness of the American people, I think this is a great time in America.”

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